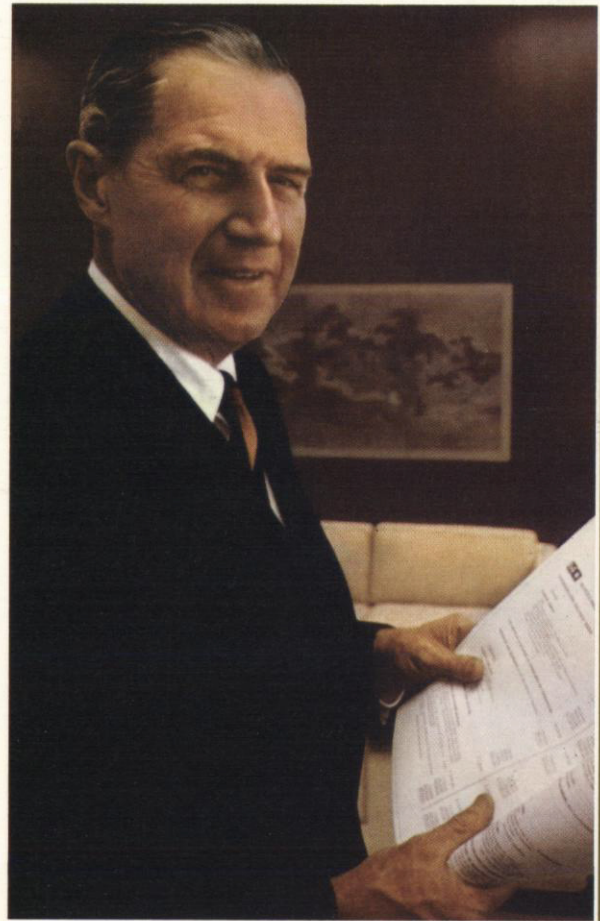




MONTGOMERY WARD 1965 ANNUAL REPORT





Robert E. Brooker, President

PRESIDENT'S LETTER TO STOCKHOLDERS

Total sales for the fiscal year of 1965 were \$1,748,360,155, as compared with \$1,697,390,884 for the 1964 fiscal year. Net earnings were \$23,962,876 or \$1.83 per common share for the fiscal year compared with \$21,865,389 or \$1.66 per share for the 1964 fiscal year.

Net earnings increased 10% per share of common stock while sales rose 3%. Total sales of Montgomery Ward for the past five years have increased at the rate of 7% annually while common stock per share earnings have increased at the rate of 11%.

Seventy-six percent of our retail business now is being transacted through modern, new or remodeled stores. During the past five years, we have strengthened the management structure of the Company and have introduced new systems and procedures to improve the productivity and profitability of the Company.

The year 1965 was one of consolidation of these programs. At the same time, we initiated new customer service programs while expanding and improving other services in recognition of the demand of today's customers for friendly and reliable service in addition to products of guaranteed value.

Sales Results and Comparisons

The 1964 fiscal year contained 53 weeks compared with 52 weeks in 1965. A recalculation of our sales on the basis of comparable 52-week years shows that total sales increased 4.4%; retail sales were \$1,229,700,000, up 6%, and catalog sales were \$518,700,000, down 3%.

RESULTS AT A GLANCE

	1965	1964
Net Sales.....	\$1,748,360,155	\$1,697,390,884
Earnings before Federal Income Taxes (Including all subsidiaries)	41,710,876	39,165,389
Earnings after Federal Income Taxes..	23,962,876	21,865,389
Earnings Reinvested During Year.....	10,407,801	8,315,753
Stockholders' Investment.....	656,733,053	646,250,026
Investment per Common Share.....	51.09	50.27
Earnings per Common Share.....	1.83	1.66
Dividends per Common Share.....	1.00	1.00

EARNINGS PER SHARE



The general merchandise retail industry prospered during 1965, reporting an increase of 7% in sales for the year. Although our sales for the first two quarters of 1965 were up less than 1%, promotion programs during the fall and winter seasons enabled us to regain our sales momentum. This resulted in an 8% increase in sales over the comparable 26-week fall and winter season of 1964.

An unprecedented volume of catalog sales during the 1964 Christmas season exceeded our capacity to handle deliveries on a satisfactory basis. This resulted in an abnormally high rate of returns and adjustments. Also, we were in the midst of our credit centralization and mechanization programs in catalog houses and this added to our problems. During the past year, we have refined these operations with new computer systems and corrected other problems through new management techniques. During the all-important Christmas season sales peak of 1965, we provided our customers with prompt and reliable service.

Earnings and Taxes

Total earnings before taxes, including all subsidiaries, were \$41,710,876 for the 1965 fiscal year as compared with \$39,165,389 last year.

Federal income taxes of \$17,748,000 in 1965 and \$17,300,000 in 1964 were based upon the tax rates that were effective during the respective periods and reflect investment tax credits on expenditures made for fixtures and equipment during each year.

Dividends of \$1.00 per common share and \$7.00 per Class A share were paid to stockholders in the amount of \$13,555,075 in 1965 and \$13,549,636 in 1964. The balance of earnings, \$10,407,801, was reinvested in the business. Payout of dividends to stockholders amounted to 56.6% of earnings.

As of February 2, 1966, the Company reported a deferral of \$21 million of Federal and State taxes related to installment sales and \$13 million resulting from accelerated depreciation. Other than for the interest savings on funds that otherwise would have been borrowed, these deferrals had no effect on reported earnings.

Accounts Receivable

The volume of customer sales transacted on credit was \$819 million in 1965 compared with \$798 million in 1964, an increase of \$21 million.

Accounts receivable for the parent company and its subsidiaries totaled \$853,002,125 at the end of 1965, a 16.4% increase from \$732,663,178 in 1964. The number of active customer accounts in retail stores, catalog stores and catalog houses increased during the year from 4,307,000 to 4,666,000 and the average balance of these accounts increased 4.8%, from \$168 to \$176.

Financial Requirements

As credit sales have continued to increase, and as we have expanded and modernized our stores and other facilities, we have obtained additional funds beyond those which were generated through the Company's cash flow. Additional capital has been obtained through our subsidiaries and in 1965 a \$150 million parent company issue of 4⁷/₈% 25-year Sinking Fund Debentures provided funds to finance further expansion of sales.

Subsidiary Operations

Montgomery Ward Credit Corporation economically provides the bulk of the financing of the parent company's growing volume of customer's receivables. Organized in 1960, this subsidiary held \$735,002,911 of the parent company's receivables at the end of the 1965 fiscal year as compared with \$693,967,886 at the end of the 1964 fiscal year. Ward's equity investment in the Credit Corporation at the end of the fiscal year was \$98 million, an increase of \$6.3 million in the past year.

Earnings of the Credit Corporation, which are included in the parent company's consolidated earnings, were \$6,292,361 as compared with \$5,392,766 last year. These earnings represent the difference between the charges to the parent and the interest and operating costs incurred by the Credit Corporation.

The M-W Properties Corporation and Montgomery Ward Realty Corporation, which hold properties leased to the parent company, recorded earnings of \$268,274 in 1965 and \$411,686 in 1964. Ward's equity investment in these subsidiaries totals \$3.7 million.

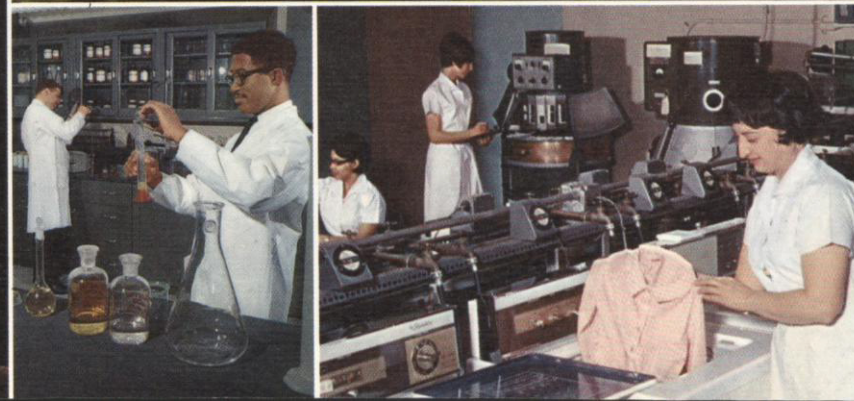
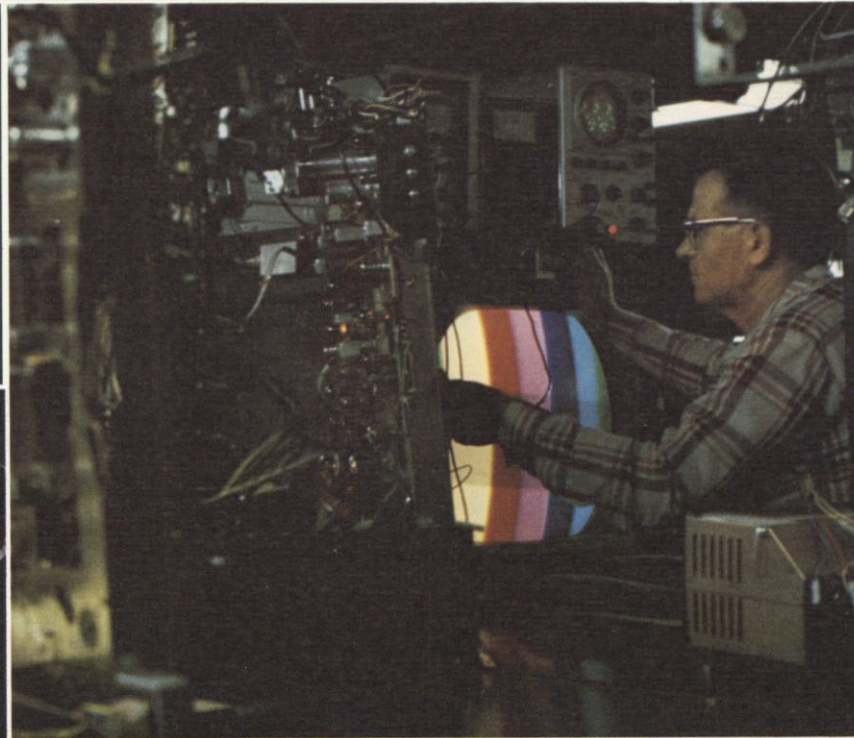
In January, 1966, the Company purchased a paint manufacturing factory in Dallas, Texas, thereby expanding its national paint production capacity by 15%. Other paint factories are located in San Leandro, Calif., Chicago Heights, Ill., and Staten Island, N.Y. The Company also owns plants in Linden, N.J., and Chicago which manufacture a variety of industrial coatings, resins, electrical insulation compounds and paper coatings.

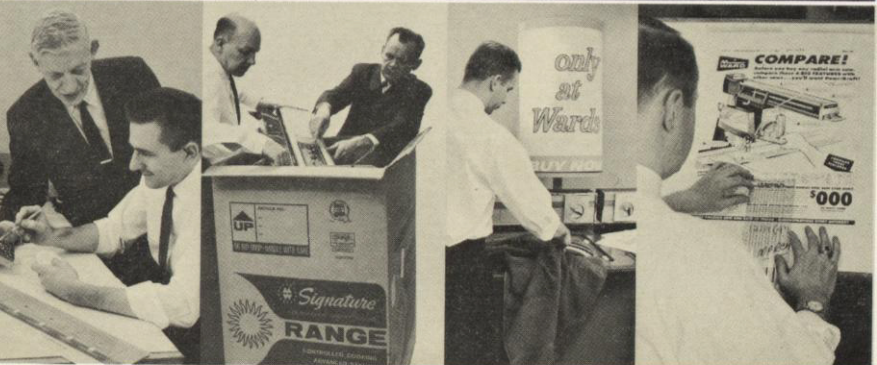
Consumer Financial Services

Your Company has taken several preliminary steps to prepare itself for the offering of broader financial services to our customers. It has purchased 98% of the capital stock of the Pioneer Trust and Savings Bank of Chicago and, within the near future, plans to proceed with the incorporation of a life insurance company. We anticipate a slow but sound development of new financial services for customers but do not expect more than nominal contributions to profits for several years.

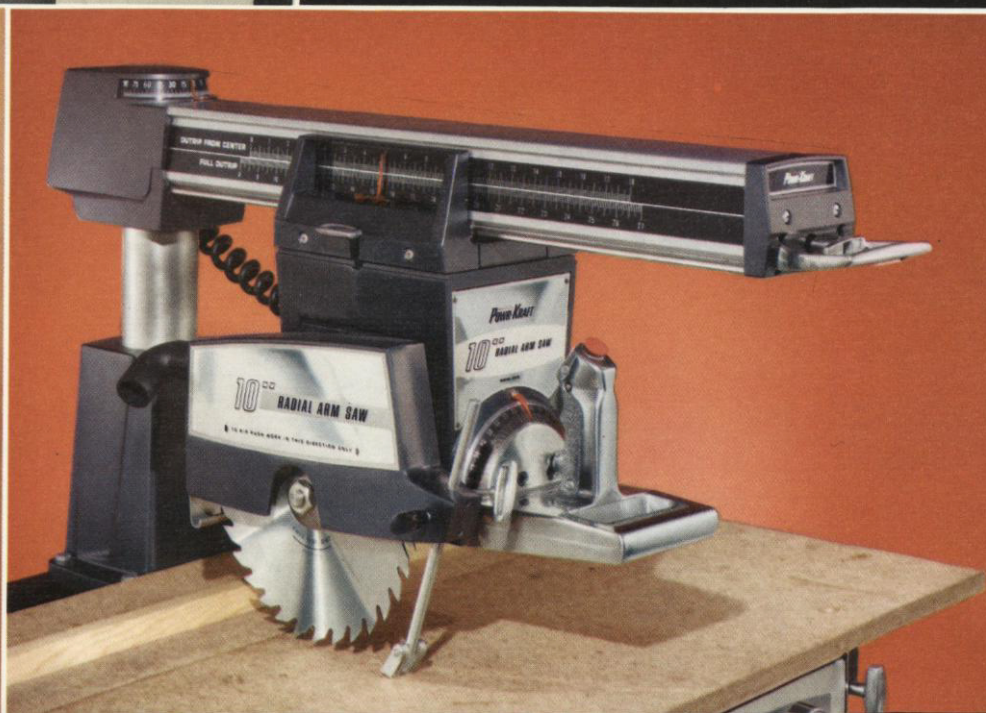


Selection, testing, inspection and comparison of thousands of merchandise items from reputable manufacturers gives the "buyers" of Montgomery Ward the great fund of knowledge that enables them to draw up specifications and oversee production of the best possible product values for Ward customers. As representatives of American consumers, these buyers must know fashion, style and color trends; size standards; care, maintenance and serviceability requirements. The integrity and experience of these men and women is unsurpassed.





New materials and technologic advances are tested and built into Ward products each year to provide customers with greater efficiency, economy and reliability. Small vertical doors replace the large heavy door of refrigerators; built-in cams provide automatic stitch selection in a redesigned sewing machine; Signature washers use solid state electrical systems that withstand vibrations; Ward's electric range is lined with self-cleaning Teflon; a new radial arm saw is engineered to provide maximum safety, performance and versatility.



Capital Expenditures

Parent and subsidiary capital expenditures were \$68,202,515 as compared with \$73,022,509 last year. Depreciation charges totaled \$19,151,531 in 1965 and \$17,142,890 in 1964.

During 1965 we completed our three-year program of modernizing and expanding our major old stores and of rehabilitating small and medium-size old stores. This program included the expansion and modernization of seven catalog house retail stores and Montgomery Ward's largest store on State Street in Chicago. It is now possible to increase our rate of opening new stores to 32 in 1966 from 24 in each of the past two years. Twenty-four of the 32 new stores will be relocations of existing stores into new and larger buildings with adequate parking space for customers; eight new stores will be opened in 1966 in Hillcrest Heights, Md.; Cocoa and Jacksonville, Fla.; Greensburg, Pa.; Robbinsdale, Minn.; Dallas, Texas; Fullerton and Huntington Beach, Calif.

Capital expenditures for these new stores, for the rehabilitation of five old stores, for the acquisition of properties and for the improvement of other facilities are presently planned to approximate \$57,000,000 in 1966.

Expansion of Retail Facilities

At the end of the 1965 fiscal year, Montgomery Ward was selling its merchandise through 502 retail stores, 140 of which were opened since 1956 and 98 of which have been modernized or expanded in the past three years.

We are proceeding with our schedule to replace old stores with new and larger stores in better locations which will provide easy access and convenient parking for customers. When the economic prospects of a community do not justify the capital investment for replacing or rehabilitating an old retail store, we occasionally replace it with a modern catalog store. This was done in six communities last year.

With 13 retail and 22 catalog stores now serving customers in the Chicago area, our competitive position has improved and this metropolitan district will contribute to our profits in 1966, following two years of deficit operations. Sales from our largest store, on State Street in Chicago, the former Fair Store, are showing substantial increases over last year now that it has been completely modernized and integrated into the Montgomery Ward merchandising organization.

Expansion of Catalog Sales Facilities

Of the 107 catalog stores opened in 1965, compared with 122 in 1964, 71 will serve new communities and 36 are new facilities replacing old stores. At the end of the year, we were operating 864 catalog stores and 44 of these stores provide customers with automobile, tire, battery and accessory maintenance and repair services.

As an additional service to customers in metropolitan areas, we extended our telephone ordering facilities to 18 new communities. We now are operating 48 telephone order units in metropolitan areas, as compared with 30 one year ago, and are offering expedited delivery service into these markets.

The number of Montgomery Ward catalog sales agencies was increased to 287 from 108 a year ago. These agencies are owned by local residents of small communities who offer the full line of merchandise and services available through Ward catalogs.

Mechanization and Electronic Data Processing

Retail customer accounts in the Detroit area, one of our largest metropolitan districts, were computerized early in 1965, improving the speed and efficiency of billings to customers and providing more timely credit reports for management. Direct input to the computer is originated from optical font cash register tapes in the twelve Detroit retail stores. We expect to extend this retail credit system to other locations during 1966.

Centralization of the buying records of 13½ million catalog customers on computers in Chicago has made it possible to increase the speed and efficiency of mailings of our catalogs. The records also are being used to analyze and categorize customers according to their buying habits. This is particularly important as we develop direct mail promotions.

The complicated tasks of maintaining inventory records and replenishing stocks of the 130,000 items in each catalog house will be computerized by the end of 1966. Where these installations have been completed, computers now are creating orders for replenishing supplies and have greatly improved the accuracy of our stock controls. The new reports are providing our merchandising staff with current and complete records of demand and supply of individual items.

CUSTOMER SERVICE PROGRAMS

The combined efforts of merchants, manufacturers and service institutions have provided the nation's consumers with more information about products and services than ever before in history. Through advertisements, brochures, labels, tags, packages and test results, our nation's consumers have become the best informed of any in history.

To meet the more demanding requirements of today's consumers, Montgomery Ward continually is raising the standards for quality and service of its merchandise as we live up to our 94-year customer service pledge of "Satisfaction Guaranteed or Your Money Back." This is the basic policy of our Company.

Consumer Information

We believe that package labeling must be accurate. To assure this, we have hundreds of professional specialists who devote their time to the writing of clear, succinct descriptions of product characteristics on packages and on labels, tags and catalog pages. To make certain that such information is presented clearly and attractively, Montgomery Ward designs its own packages.

We believe that newspaper advertising must be dependable. For this reason, our newspaper advertisements are carefully prepared by our own copywriters working with our own buyers and our own laboratory technicians. Customers can trust our advertised claims because they know that our team of employees—product designer, buyer, copywriter, clerk and delivery man—each and every one is sharing in the responsibility to guarantee satisfaction.

We believe our customers have the right to expect reliable delivery and installation service. To serve them better, Montgomery Ward has established new training programs for its sales and service employees, new ordering and delivery systems and renewed emphasis upon the offering at all times of the most courteous and friendliest service in town.

For all employees, whether they be salesmen, repairmen or managers, there is one policy for the customers of Montgomery Ward—from Maine to California and Washington to Florida—we guarantee satisfaction and every employee is dedicated to the same policy.

Customer Service Specialists

To provide improved mechanical service for customers, we have expanded our central service unit operations in 23 major metropolitan areas. These locations are staffed by full complements of trained technicians for radio, television, stereo, home appliances, and other mechanical and electronic products sold by Wards. Five hundred and fifteen radio-dispatched trucks serve customers daily from these centers and 991 additional service trucks serve customers in other communities. During the past year, we added 181 new trucks to our fleet to improve our service.

Wards continues to expand its auto service centers and now has 528 of them with 2,792 service stalls at retail and catalog store locations. In these centers, the Company provides a wide range of maintenance, repair and installation services and sells a full line of auto accessories, parts and equipment.



"Young America In Action"—theme of Ward's Spring and Summer catalog, is typified by these illustrations of popular seasonal merchandise items. The rainwear fashions are exclusive creations of Fabiani of Rome for Montgomery Ward. The popular and youthful "total look" ensemble of wool coat and skirt, jersey blouse and matching beanie hat are exclusive creations of Clodagh of Dublin. Most popular of recent trends is the designer influence on Ward's little girl fashions.



Spanish and CLASSIC

As a pace setter in the merchandising of home furnishings, Montgomery Ward has been aggressively developing completely coordinated styles of furniture, lamps, floor coverings, draperies, accessories and other home furnishings that are in good taste, are fashion-right, and are value-priced. Through its retail stores and its catalogs, Wards is offering the broadest assortment of well styled furniture in history, including early American "Salem Square," modern "Suburbia," provincial "Continentale," Spanish (above) and a new line pictured below which is known as "Classic"—a blend of many moods.



Complete Product Protection

One of the greatest problems for the modern American housewife who has furnished her home with a full assortment of electrical appliances and accessories is, "How do I get service when I need it, at a price that is sensible?"

With a household of products carrying a dozen different brand names, this can be a problem without a solution. Montgomery Ward, however, in 1965 introduced its solution for customers who have Ward appliances. A Golden Service Contract Agreement provides guaranteed service for as many as 58 different items in a home at one flat monthly charge. One contract, one phone number to call, and 58 Montgomery Ward appliances are covered—from color television and sewing machines to the room air conditioner and the dehumidifier. This program is the first of its kind to be offered by any national retailer, and applies wherever Ward customers may move in the United States.

Employee Training Programs

Under the leadership of the customer service training department, 2,300 service technicians are given basic theory and individual product training by Montgomery Ward and its suppliers in addition to the weekly training courses that are conducted at each Ward service location.

The most welcome service a customer can be given is that of a salesman who knows his product line and who understands his customer's needs. To give more of our customers this kind of service, we have been developing new approaches to the training of our employees, including one program completed by 13,500 retail store management personnel and a credit training program completed by 6,675 employees.

In addition to these training programs which provide our employees with greater knowledge and skills, 250 of our top and middle management executives participated during 1965 in specialized training programs covering the analyses of problems and the processes of making decisions. Such courses are of great importance in our long-range plans to prepare managers for positions of greater responsibility. An additional 250 executives will be enrolled in these specialized training programs during 1966.

Special Services for Customers

The sales potential of most retail and many catalog stores is being further expanded—without additional capital—by the employment and training of specialists for "outside" selling. A phone call now can bring to your own home an experienced interior consultant or a home improvement specialist, a kitchen planning or stereo sound system expert, a salesman for refrigerators, ranges, air conditioning or other appliances and equipment.

One of the greatest services rendered by Montgomery Ward to young America during the last three years has been the instruction of some 100,000 young girls in the simple forms of good grooming and good fashions through our now famous Wendy Ward courses. Classes are conducted for children, teenagers, young matrons and homemakers in 100 stores.

Montgomery Ward has brought a new fashion leadership to its customers by attracting top American and European fashion designers to develop exclusive creations for Ward customers and to introduce them personally on tours to all sections of the United States. These pre-season fashion shows for charities, universities and other educational institutions, have earned much good will for Montgomery Ward and many thousands of dollars for various community charitable services and university fashion scholarship funds.

Executive Retirements and Promotions

Executive changes at the year end included the retirement of Charles J. Kushell, Jr., as Vice President-Credit, and of Russell P. Bygel, Vice, President-North Central Region. Mr. Kushell

and Mr. Bygel also are retiring from the Board of Directors upon completion of their present terms in May. The services of these men as officers and directors have been invaluable to the growth and development of the Montgomery Ward organization.

Executives promoted from within the organization to new officer positions during the year are: Harold F. Dysart—Vice President-Operating; James Lutz—Vice President-North Central Region; Andrew Lamb—Vice President-Finance; Ashley D. DeShazor—Vice President-Credit; Thomas O. Stratton—Treasurer.

Summary Appraisal

In 1966, we expect our sales and earnings to improve at a greater rate than we have recorded in the past five years. The changes made during 1965 are already producing satisfactory improvements in our 1966 operating results.

Respectfully submitted,

Robert E. Brooker

Robert E. Brooker
President

April 4, 1966



New stores will be opened in 32 communities during 1966, the most to be opened in any year since 1940. One of the largest stores will be in Huntington Beach, Calif. (top), with 103,000 square feet of selling space. The store in Lexington, Kentucky (bottom), with 62,000 square feet of selling space, is typical of Ward's single-level medium and small-size stores. These are now being built to prototype specifications and offer full lines of merchandise and services.



MONTGOMERY WARD & CO., INCORPORATED

Consolidated Statements of Earnings & Earnings Reinvested

1965
1964

Earnings	for the fiscal years ended February 2, 1966 and February 3, 1965	(52 weeks)	(53 weeks)
NET SALES	\$1,748,360,155	\$1,697,390,884	
COSTS AND EXPENSES:			
Cost of merchandise sold, including net buying, operating, selling and administrative expenses other than itemized herein.....	\$1,624,536,743	\$1,580,987,245	
Rents	32,849,156	29,477,533	
Maintenance and repairs.....	7,169,028	7,021,536	
Depreciation and amortization.....	17,551,335	16,018,750	
Contribution to employees' savings and retirement plans.....	6,069,194	5,120,954	
Property, social security and state taxes.....	31,082,458	31,003,929	
Provision for Federal taxes on income.....	11,700,000	11,700,000	
Total costs and expenses.....	\$1,730,957,914	\$1,681,329,947	
NET EARNINGS FROM OPERATIONS	\$ 17,402,241	\$ 16,060,937	
NET EARNINGS OF SUBSIDIARIES NOT CONSOLIDATED.....	6,560,635	5,804,452	
TOTAL NET EARNINGS	\$ 23,962,876	\$ 21,865,389	

Earnings Reinvested

BALANCE AT BEGINNING OF YEAR	\$ 435,134,901	\$ 426,946,137
NET EARNINGS	23,962,876	21,865,389
Total	<u>\$ 459,097,777</u>	<u>\$ 448,811,526</u>
CASH DIVIDENDS:		
Class A stock —\$7.00 per share	\$ 974,568	\$ 978,120
Common stock—\$1.00 per share	12,580,507	12,571,516
EXCESS OF COST OVER STATED VALUE OF CLASS A SHARES REACQUIRED	—	126,989
Total	<u>\$ 13,555,075</u>	<u>\$ 13,676,625</u>
BALANCE AT END OF YEAR	<u>\$ 445,542,702</u>	<u>\$ 435,134,901</u>

Explanatory notes to these financial statements appear on page 16.



MONTGOMERY WARD & CO., INCORPORATED

Consolidated Balance Sheet

February 2,
1966

February 3,
1965

Assets

CURRENT ASSETS:

Cash.....	\$ 30,502,316	\$ 33,715,985
Receivables, including equity in accounts sold, less reserves for doubtful accounts and unearned carrying charge income.....	231,505,046	145,442,469
Merchandise inventories, at the lower of cost or market.....	400,205,598	349,866,801
Prepaid catalog costs, supplies, etc.....	42,022,500	43,601,445
Total current assets.....	\$ 704,235,460	\$572,626,700
NET EQUITY IN, & ADVANCES TO, SUBSIDIARIES NOT CONSOLIDATED....	121,095,971	100,533,785
PROPERTIES AND EQUIPMENT, at cost less reserves for depreciation	234,625,326	208,789,189
DEBENTURE DISCOUNT AND EXPENSE, after amortization	2,298,412	—
	<u>\$1,062,255,169</u>	<u>\$881,949,674</u>

Liabilities

CURRENT LIABILITIES:

Notes payable to banks.....	\$ 64,000,000	\$ 73,865,000
Accounts payable and other liabilities.....	109,183,388	96,201,605
Accrued expenses.....	51,663,996	47,184,337
Federal taxes on income, including \$14,900,000 in 1966 and \$3,900,000 in 1965 of deferred taxes on customer installment accounts.....	17,774,732	7,368,706
Total current liabilities.....	\$ 242,622,116	\$224,619,648
DEFERRED FEDERAL TAXES ON INCOME	\$ 12,900,000	\$ 11,080,000
4⁷/₈% SINKING FUND DEBENTURES, due August 1, 1990.....	\$ 150,000,000	\$ —

CAPITAL STOCK AND EARNINGS REINVESTED:

Class A stock, no par value—Authorized 205,000 shares non-callable, \$7.00 per share cumulative dividends; issued 201,554 shares less 62,330 shares in Treasury stated at liquidating value.....	\$ 13,922,400	\$ 13,922,400
Common stock, no par value—Authorized 20,000,000 shares; issued 13,004,756 shares at stated value.....	211,231,385	211,231,385
Earnings reinvested in the business.....	445,542,702	435,134,901
	\$ 670,696,487	\$660,288,686
Less—Treasury common stock, 423,334 shares in 1966 and 425,944 shares in 1965, at cost.....	13,963,434	14,038,660
Total capital stock and earnings reinvested.....	\$ 656,733,053	\$646,250,026
	<u>\$1,062,255,169</u>	<u>\$881,949,674</u>

Explanatory notes to these financial statements appear on page 16.



MONTGOMERY WARD CREDIT CORPORATION

Balance Sheet

February 2,
1966

February 3,
1965

Assets

CURRENT ASSETS:

Customers' deferred payment accounts purchased without recourse from Montgomery Ward & Co., Incorporated.....	\$735,002,911	\$693,967,886
Less portion of purchase price withheld pending collection (including allowance for estimated uncollectible accounts of \$7,344,788 in 1966 and \$6,922,214 in 1965).....	73,447,883	69,222,135
	<u>\$661,555,028</u>	<u>\$624,745,751</u>
Cash.....	1,115,365	1,082,913
Prepaid interest on notes payable.....	1,226,622	1,470,801
Total current assets.....	<u>\$663,897,015</u>	<u>\$627,299,465</u>
 DEBENTURE DISCOUNT AND EXPENSE , after amortization.....	 1,186,122	 1,266,752
 OTHER ASSETS	 9,736	 10,886
	<u>\$665,092,873</u>	<u>\$628,577,103</u>

Liabilities

CURRENT LIABILITIES:

Notes payable.....	\$373,806,600	\$345,452,110
Payable to Montgomery Ward & Co., Incorporated.....	39,013,560	36,213,889
Accrued interest and other liabilities.....	1,114,464	947,440
Federal taxes on income.....	3,487,304	3,780,898
Total current liabilities.....	<u>\$417,421,928</u>	<u>\$386,394,337</u>

LONG TERM DEBT:

Term Notes, due August 31, 1970-71.....	\$ 50,000,000	\$ 50,000,000
4 ⁷ / ₈ % Debentures, due July 1, 1980.....	50,000,000	50,000,000
4 ³ / ₄ % Debentures, due February 1, 1981.....	25,000,000	25,000,000
5 ¹ / ₄ % Subordinated Debentures, due February 1, 1981.....	25,000,000	25,000,000
Total long term debt.....	<u>\$150,000,000</u>	<u>\$150,000,000</u>

UNEARNED DISCOUNT ON DEFERRED PAYMENT ACCOUNTS	\$ —	\$ 804,182
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INVESTMENT OF MONTGOMERY WARD & CO., INCORPORATED:

Common stock, \$100 par value—			
Authorized 500,000 shares; issued and outstanding 250,000 shares.....	\$ 25,000,000		\$ 25,000,000
Capital in excess of par value.....	50,000,000		50,000,000
Earnings reinvested in the business:			
Balance at beginning of year.....	1966 \$16,378,584	1965 \$10,985,818	
Net earnings.....	6,292,361	5,392,766	22,670,945
Total investment of Montgomery Ward & Co., Incorporated	<u>\$ 97,670,945</u>		<u>\$ 91,378,584</u>
	<u>\$665,092,873</u>		<u>\$628,577,103</u>



MONTGOMERY WARD REAL ESTATE SUBSIDIARIES:
MONTGOMERY WARD REALTY CORPORATION AND M-W PROPERTIES CORPORATION

Combined Balance Sheet

February 2, 1966 February 3, 1965

Assets

CURRENT ASSETS:

Cash	\$ 55,658	\$ 96,796
Marketable securities, at cost	—	910,203
Receivable from Montgomery Ward & Co., Incorporated	291,206	1,012,116
Other current assets	3,173	6,219
Total current assets	<u>\$ 350,037</u>	<u>\$ 2,025,334</u>

PROPERTIES, at cost: (Leased to Montgomery Ward & Co., Incorporated)

Land	\$17,992,168	\$12,490,992
Buildings, less reserves for depreciation of \$8,164,071 in 1966 and \$6,641,111 in 1965	56,278,435	45,110,330
Leasehold improvements, after amortization	2,672,482	2,747,610
Total properties	<u>\$76,943,085</u>	<u>\$60,348,932</u>

FINANCING EXPENSE, after amortization	<u>\$ 383,933</u>	<u>\$ 396,194</u>
	<u>\$77,677,055</u>	<u>\$62,770,460</u>

Liabilities

CURRENT LIABILITIES:

Principal payments of secured notes due within one year	\$ 905,000	\$ 864,000
Notes payable to Montgomery Ward & Co., Incorporated	1,044,389	1,314,093
Construction accounts payable	1,101,281	—
Accrued expenses and other liabilities	368,962	191,073
Federal taxes on income	5,932	51,893
Total current liabilities	<u>\$ 3,425,564</u>	<u>\$ 2,421,059</u>

DEFERRED FEDERAL TAXES ON INCOME	<u>\$ 1,443,465</u>	<u>\$ 906,200</u>
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LONG TERM DEBT:

Secured notes at interest rates of 4 ³ / ₄ % to 5 ¹ / ₄ % due serially to January 15, 1995, less principal payments due within one year	\$49,383,000	\$50,288,000
4 ¹ / ₂ % Subordinated note, due January 6, 1974, payable to Montgomery Ward & Co., Incorporated	5,752,205	5,752,205
5% Subordinated demand notes payable to Montgomery Ward & Co., Incorporated (pending permanent financing)	14,001,551	—
Total long term debt	<u>\$69,136,756</u>	<u>\$56,040,205</u>

INVESTMENT OF MONTGOMERY WARD & CO., INCORPORATED:

Common stock	\$ 2,225,400	\$ 2,225,400
Earnings reinvested in the business:		
Balance at beginning of year	1966 \$1,177,596	1965 \$765,910
Net earnings	268,274	411,686
	<u>1,445,870</u>	<u>1,177,596</u>
Total investment of Montgomery Ward & Co., Incorporated	<u>\$ 3,671,270</u>	<u>\$ 3,402,996</u>
	<u>\$77,677,055</u>	<u>\$62,770,460</u>

AUDITORS' OPINION To the Stockholders and Board of Directors, Montgomery Ward & Co., Incorporated:

We have examined the consolidated balance sheet of Montgomery Ward & Co., Incorporated (an Illinois corporation) and subsidiaries as of February 2, 1966, and the related consolidated statements of earnings and earnings reinvested for the 52-week period then ended. We have also examined the balance sheet of Montgomery Ward Credit Corporation and the combined balance sheet of Montgomery Ward Realty Corporation and M-W Properties Corporation (all Delaware corporations) as of February 2, 1966. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements referred to above present fairly the financial position of the companies as of February 2, 1966, and the consolidated results of their operations for the 52-week period then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding 53-week period.

Chicago, Illinois, March 17, 1966

Arthur Andersen & Co.

NOTES TO FINANCIAL STATEMENTS

RECEIVABLES

	February 2, 1966	February 3, 1965
Total Receivables (principally customer installment accounts)	\$913,406,710	\$787,241,615
Less—Reserves for doubtful accounts and unearned carrying charges	20,346,636	17,053,395
	<u>\$893,060,074</u>	<u>\$770,188,220</u>
Less—Accounts sold to credit subsidiary (net of amount withheld pending collection)	661,555,028	624,745,751
	<u>\$231,505,046</u>	<u>\$145,442,469</u>

PROPERTIES AND EQUIPMENT

	February 2, 1966	February 3, 1965
Land	\$ 17,689,143	\$ 18,014,650
Buildings	\$136,292,292	\$119,551,094
Fixtures and Equipment	163,176,905	143,435,416
	<u>\$299,469,197</u>	<u>\$262,986,510</u>
Less—Reserves for depreciation	100,396,214	87,720,780
	<u>\$199,072,983</u>	<u>\$175,265,730</u>
Leasehold improvements, after amortization	\$ 17,863,200	\$ 15,508,809
Properties and Equip- ment—Net	<u>\$234,625,326</u>	<u>\$208,789,189</u>

PRINCIPLES OF CONSOLIDATION—The consolidated statements include all subsidiaries except Montgomery Ward Credit Corporation, M-W Properties Corporation, and Montgomery Ward Realty Corporation, wholly owned subsidiaries for which separate or combined balance sheets are presented in this report. The net equity of subsidiaries not consolidated is stated in the Consolidated Balance Sheet at the amount of the Company's investments in such subsidiaries plus accumulated earnings in the net amount of \$24,116,815 as of February 2, 1966, which amount is included in Earnings Reinvested.

COSTS AND EXPENSES—The Statement of Earnings sets forth certain merchandise costs and operating expenses. These same costs and expenses may also be presented as follows: cost of merchandise sold, including net occupancy and buying expenses, \$1,266,507,122 in 1965 and \$1,238,529,575 in 1964; operating, selling and general administrative expenses, \$447,289,555 in 1965 and \$429,641,279 in 1964.

RETIREMENT AND SAVINGS PLANS—Under the Retirement Plan of the Company and its subsidiaries, there was an estimated unfunded past-service liability of \$25 million as of February 2, 1966. Provision was made during the fifty-two week period ended February 2, 1966 for interest on the unfunded past-service liability and full funding of current service liability. During the fiscal year, the Company contributed \$1,769,194 to the Employee Savings Plan.

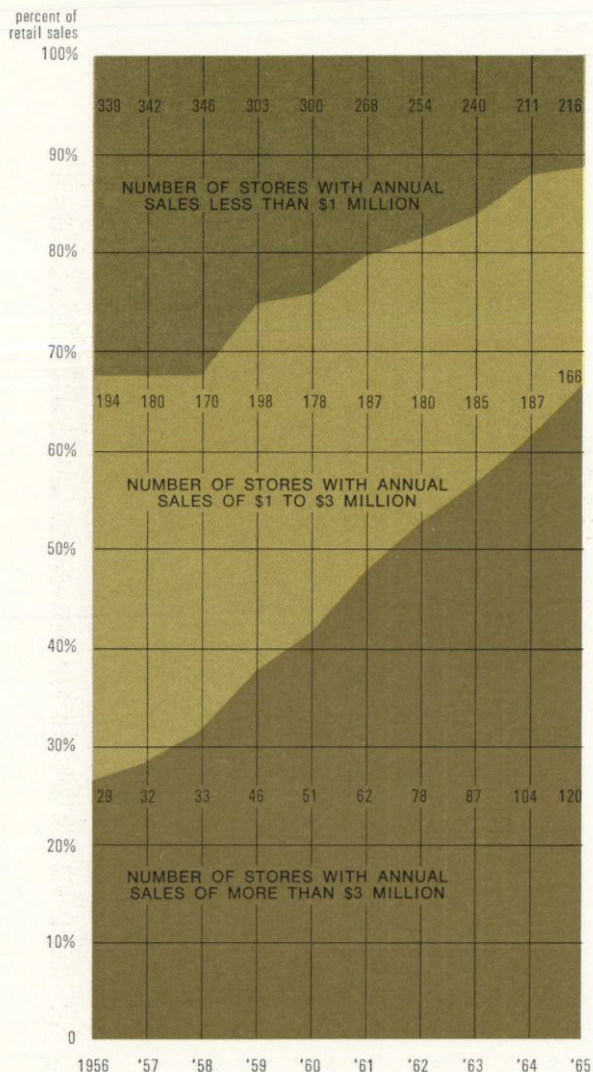
EMPLOYEES' STOCK OPTIONS—Under the Company's stock option plan 576,740 shares of common stock were reserved on February 2, 1966 for issuance to officers and key employees. On February 2, 1966, options for a total of 514,080 shares, of which 256,080 shares were exercisable, were held by 236 individuals at prices ranging from \$26⁷/₈ to \$47⁷/₈ per share, equal to 100% of market value at dates of grant. Options granted prior to January 1, 1964 are for a period of 10 years and on and after January 1, 1964 for a period of 5 years. Options are exercisable in cumulative installments of 10% per year for options granted prior to May 11, 1962 and 20% per year for options granted thereafter, commencing one year from date of grants. During the 1965 fiscal year, options for 2,610 shares were exercised.

LEASE OBLIGATIONS—The Company had 805 leases in effect as of February 2, 1966 having terms of more than three years after that date. These leases provided for present aggregate minimum annual rentals of approximately \$28,455,000 (of which \$4,482,000 is payable to M-W Properties Corporation and Montgomery Ward Realty Corporation) plus, in certain instances, real estate taxes and other expenses. Additional amounts based upon percentage of sales may become due on 26% of these leases. The Company has no obligation under any of these leases beyond the year 1998 except for ground leases of two stores which extend through the years 2020 and 2029.

LONG TERM DEBT—Under the Indenture for the 4⁷/₈% Sinking Fund Debentures the Company may not declare any dividends on its common stock or acquire any of its classes of stock if, after giving effect thereto, it cannot meet certain financial requirements as defined in the Indenture. Under the most restrictive of these requirements, \$28,922,392 of consolidated earnings reinvested in the business were not restricted at February 2, 1966. Sinking fund payments of \$7 million are payable annually beginning in 1975 and \$45 million will be due August 1, 1990.

CREDIT CORPORATION—Under the Term Loan Agreement and the Indentures relating to the 4⁷/₈% and 4³/₄% Debentures, the Credit Corporation may not declare dividends on, or acquire any of its common stock if, after giving effect to such transactions, current assets as defined in the Agreement and the Indentures are not at least equal to 120% of total liabilities as defined in the Agreement and the Indentures. As of February 2, 1966, \$13,020,100 of the Credit Corporation earnings reinvested in the business were not restricted under these provisions. Term Notes in the amount of \$34 million provide for interest at a variable rate which was 5¹/₄% at February 2, 1966. The balance of the Term Notes have a fixed interest rate of 4³/₄%.

SUBSEQUENT EVENTS—On March 1, 1966, the Company purchased 117,496 shares of Pioneer Trust and Savings Bank in Chicago, Illinois for a cash price of \$165 per share or a total amount of \$19,386,840.



RETAIL SALES: % by store volume categories

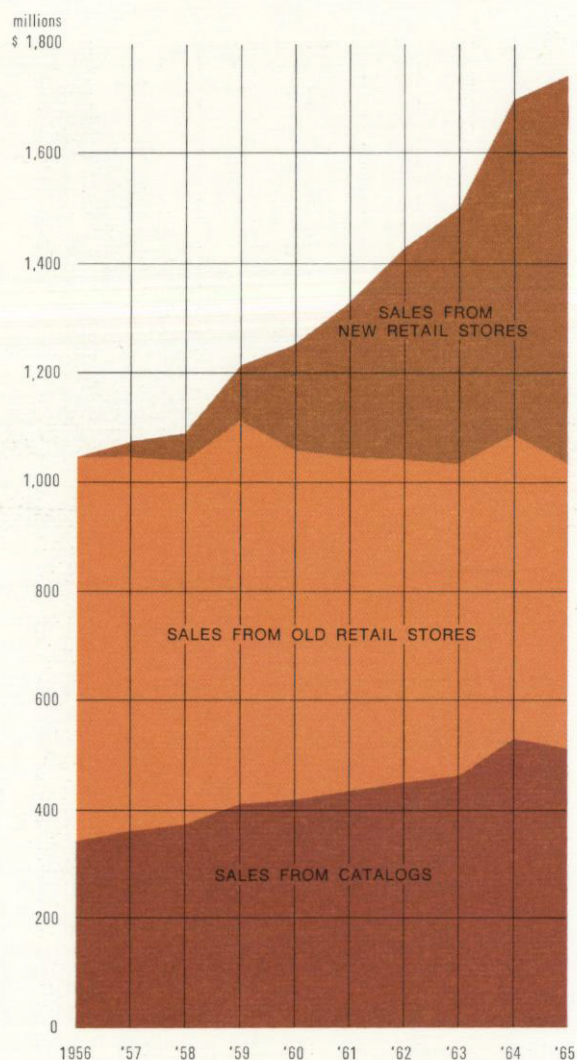
Montgomery Ward's 120 largest stores (over \$3 million sales) generated \$818.5 million or 67% of the Company's retail sales in 1965 compared with \$720 million or 62% for 104 comparable volume stores in 1964.

In the 20 major metropolitan areas which are managed by semi-autonomous merchandising and operating staffs, 90 retail stores developed 49% of the Company's total retail sales.

The chart portrays the steadily increasing volume of sales contributed by large stores since 1956 when 29 stores with annual sales of more than \$3 million accounted for only 27% of retail sales.

Sales for 166 medium size stores (\$1 to \$3 million) were \$269.2 million (22%) as compared to \$301 million (26%) for 187 stores in 1964.

In the small store category (less than \$1 million), 216 stores provided \$142 million (11%) in sales as compared to \$141.5 million (12%) for 211 stores in 1964.



TOTAL SALES: RETAIL STORES-CATALOGS

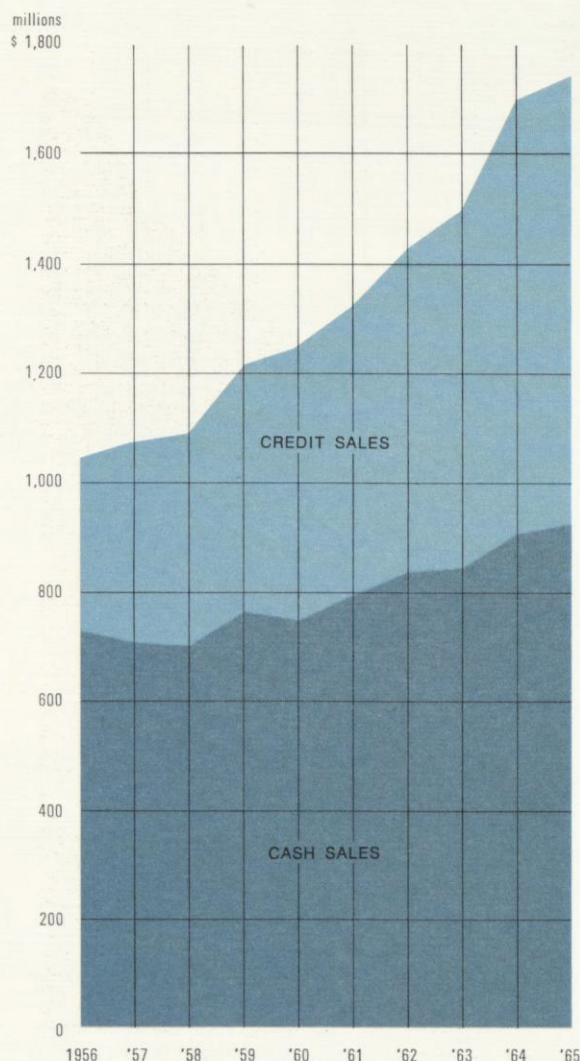
Retail sales in 1965 totaled \$1,230 million compared with \$1,162.5 million last year and \$701 million 10 years ago.

Catalog sales in 1965 totaled \$519 million compared with \$535 million last year and \$344 million 10 years ago.

In 1965, sales from 140 new retail stores (those opened since 1956) accounted for 58% of total retail sales volume as compared with 54% in 1964.

Of the 362 old stores, the 98 that have been rehabilitated in the last three years accounted for an additional 18% of retail sales. Old stores which have not been relocated or rehabilitated, and which are located principally in medium-sized and small communities, accounted for 24% of retail sales as compared with 30% in 1964.

It is of interest to note that the Company's 140 new retail stores in 1965 generated a larger sales volume, \$701.5 million, than did Wards total chain of 562 retail stores in 1956, \$701 million.



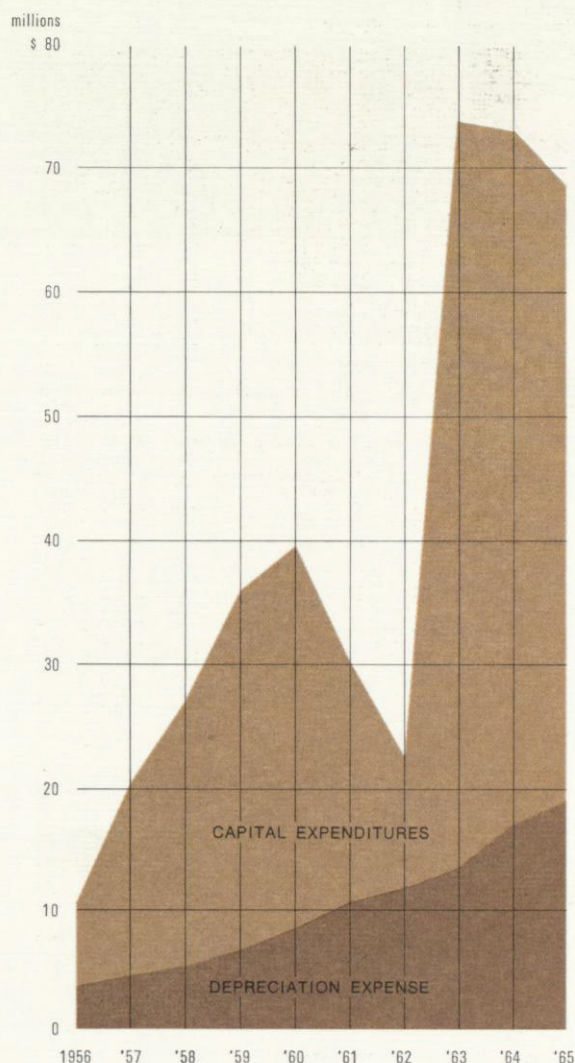
TOTAL SALES: CASH AND CREDIT

Credit sales in 1965 accounted for \$819 million compared with \$798 million last year, equal to 47% of total sales in both years.

Although cash sales have accounted for a decreasing share of total sales volume, they have increased 28% from \$725 million to \$929 million in the 10-year period. During 1966, it is expected that credit sales will tend to remain at a 47%-48% proportion of total sales.

The extension of credit services to meet the growing needs of the young segment of the population which is forming new families and establishing new homes has been an important factor in the growth pattern of the Company. Credit accounts at the end of 1965 totaled 4,666,000 as compared with 4,307,000 last year, an increase of 8.3%.

Accounts receivable outstanding at the end of 1965, principally customer installment accounts, were \$853,002,125, an increase of 16.4% over last year's \$732,663,178.



CAPITAL EXPENDITURES (including subsidiaries)

With the completion of the major part of Montgomery Ward's program of modernizing and expanding its existing stores and catalog and warehouse facilities, the non-recurring types of capital expenditures are decreasing.

As shown on the chart above, capital expenditures in 1965 were \$68,202,515 and in 1964 were \$73,022,509. Depreciation charges were \$19,151,531 in 1965 and \$17,142,890 in 1964.

Capital investments in new stores, new warehouses, expanded and modernized facilities during the past 10 years have reached a total of \$403 million.

In 1965, the Company opened 24 new and relocated stores, rehabilitated 9 small and medium-size stores, and completed the renovation of some of its large stores and its corporate office headquarters in Chicago. In 1966, the Company will open 32 new and relocated stores and will rehabilitate five small and medium-size stores.

TEN-YEAR STATISTICAL SUMMARY

1965

1964

1963

OPERATIONS

Net Sales	\$1,748,360,155	\$1,697,390,884	\$1,500,111,708
Net Earnings	23,962,876	21,865,389	20,966,606
Federal Income Taxes (including all subsidiaries)	17,748,000	17,300,000	17,353,000
Dividends	13,555,075	13,549,636	13,879,732
Earnings Reinvested or (in italics) Paid Out to Stockholders from earnings of previous years	10,407,801	8,315,753	7,086,874
Additions to Properties and Equipment:			
Parent and Consolidated subsidiaries	50,670,268	69,055,893	72,169,514
Nonconsolidated subsidiaries	17,532,247	3,966,616	1,923,726
Depreciation and Amortization:			
Parent and Consolidated subsidiaries	17,551,335	16,018,750	12,568,809
Nonconsolidated subsidiaries	1,600,196	1,124,140	777,805
Number of Retail Stores	502	502	512
Number of Catalog Stores	864	818	737
Average Number of Employees	98,484	93,802	82,890

FINANCIAL POSITION

Working Capital (after intercompany adjustments):			
Parent and Consolidated subsidiaries	\$ 421,846,601	\$ 311,491,186	\$ 381,805,125
Nonconsolidated subsidiaries	283,166,303	277,025,269	185,025,390
Accounts Receivable (after intercompany adjustments):			
Parent and Consolidated subsidiaries	191,447,097	107,914,487	70,894,032
Nonconsolidated subsidiaries	661,555,028	624,748,691	515,741,194
Inventories	400,205,598	349,866,801	328,564,429
Net Investment in Properties and Equipment:			
Parent and Consolidated subsidiaries	234,625,326	208,789,189	178,889,493
Nonconsolidated subsidiaries	76,950,796	60,356,470	37,867,956
Long Term Debt (after intercompany adjustments):			
Parent and Consolidated subsidiaries	150,000,000	—	—
Nonconsolidated subsidiaries	199,383,000	200,288,000	128,652,000

STOCKHOLDERS' INTEREST

Capital Stock and Earnings Reinvested	\$ 656,733,053	\$ 646,250,026	\$ 637,935,982
Investment per Common Share (book value of shares outstanding at end of year)	51.09	50.27	49.63
Earnings per Common Share (on average number of shares outstanding during the year)	1.83	1.66	1.57
Dividends per Common Share	1.00	1.00	1.00
Shares Outstanding:			
Class A	139,224	139,224	141,254
Common	12,581,422	12,578,812	12,569,152
Number of Stockholders	86,737	91,754	96,776

1962	1961	1960	1959	1958	1957	1956
\$1,425,187,840	\$1,325,941,281	\$1,248,993,866	\$1,222,596,263	\$1,092,267,472	\$1,073,799,422	\$1,045,767,458
20,415,681	15,859,096	15,053,599	30,656,537	28,030,510	29,696,757	35,844,479
20,825,000	16,780,500	16,551,700	32,775,000	28,800,000	30,660,000	38,190,000
13,996,630	14,182,249	20,619,205	27,010,180	27,011,140	30,507,029	30,671,579
6,419,051	1,676,847	(5,565,606)	3,646,357	1,019,370	(810,272)	5,172,900
21,335,348	23,632,379	22,339,716	36,073,835	27,271,255	20,476,338	10,516,918
1,417,061	6,904,636	17,406,390	—	—	—	—
11,147,015	9,852,659	8,317,153	6,429,527	5,334,929	4,517,949	3,588,874
752,966	522,408	218,536	—	—	—	—
512	517	529	547	549	554	562
691	676	627	568	527	475	415
77,123	72,106	67,258	63,153	58,152	59,714	57,691
\$ 463,787,666	\$ 449,767,743	\$ 469,648,372	\$ 541,005,545	\$ 566,551,714	\$ 587,609,314	\$ 610,974,437
154,292,928	163,088,589	112,812,358	—	—	—	—
63,996,717	194,780,691	238,845,291	356,590,631	305,325,253	277,179,867	237,915,314
414,881,564	240,374,252	167,415,758	—	—	—	—
285,720,832	296,174,404	266,784,895	260,218,266	242,026,480	227,432,485	247,094,113
128,830,668	121,861,235	111,741,337	104,691,071	75,225,195	53,578,754	37,792,614
30,934,129	30,754,648	21,755,732	—	—	—	—
—	—	—	—	—	—	—
118,239,000	118,541,000	68,829,000	—	—	—	—
\$ 640,679,610	\$ 635,438,336	\$ 640,218,052	\$ 645,696,616	\$ 641,776,909	\$ 641,188,068	\$ 648,767,051
49.38	48.80	48.42	48.85	48.57	48.49	48.34
1.51	1.13	1.07	2.28	2.08	2.19	2.65
1.00	1.00	1.50	2.00	2.00	2.25	2.25
201,554	201,554	201,554	201,554	201,554	201,554	201,554
12,565,771	12,608,396	12,805,696	12,803,406	12,796,256	12,808,556	13,004,756
104,580	108,194	107,609	106,006	99,956	92,127	84,605

DIRECTORS

Robert E. Brooker, *President, Montgomery Ward, 1962**

Russell P. Bygel, *Vice President, Montgomery Ward, 1958†*

Philip R. Clarke, *Chairman of the Executive Committee, Montgomery Ward, 1942*

Dwight M. Cochran, *President, Kern County Land Co., 1965*

Fairfax M. Cone, *Chairman of the Executive Committee, Foote, Cone & Belding Advertising Agency, 1962*

Edward S. Donnell, *Executive Vice President, Montgomery Ward, 1963*

Donald M. Graham, *Vice Chairman of the Board of Directors, Continental Illinois National Bank and Trust Company of Chicago, 1962*

Edward Gudeman, *Partner, Lehman Brothers, 1963*

Charles J. Kushell, Jr., *Vice President, Montgomery Ward, 1957†*

Lenox R. Lohr, *President, Museum of Science & Industry of Chicago, 1956*

Ernest S. Marsh, *President, The Atchison, Topeka and Santa Fe Railway Company, 1959*

Sidney A. McKnight, *Vice President, Montgomery Ward, 1965*

Robert L. Milligan, *Chairman, Pure Oil Company, A Division of Union Oil Company of California, 1959*

Martin D. Munger, *Vice President, Montgomery Ward, 1965*

James J. Nance, *Chairman, Central National Bank of Cleveland, 1962*

Frederick H. Veach, *Vice President, Montgomery Ward, 1965*

Charles W. Wood, *Vice President, Montgomery Ward, 1962*

**Date indicates year elected Director*

†Will retire as Director May 12, 1966

OTHER OFFICERS

Harold W. Bancroft, *Assistant Secretary*

Narcisse A. Brown, *Assistant Secretary*

Walter O. Landmann, *Assistant Secretary*

James G. McWaters, *Assistant Secretary*

Irwin J. Shapiro, *Assistant Secretary*

William A. Voss, *Assistant Secretary*

Russell E. Mooney, Jr., *Assistant Treasurer*

TRANSFER AGENTS—The Northern Trust Company, Chicago, Ill.
Morgan Guaranty Trust Company of New York, New York, N.Y.

REGISTRARS—The First National Bank of Chicago, Chicago, Ill.
Bankers Trust Company, New York, N.Y.

CORPORATE OFFICES—619 W. Chicago Ave., Chicago, Ill. 60607, Tel. 467-2000



Edward S. Donnell, *Executive Vice President*



Andrew Lamb, *Vice President, Finance*; **Charles W. Wood**, *Vice President, Merchandising*; **Harold F. Dysart**, *Vice President, Operating*



Martin D. Munger, Sidney A. McKnight, James Lutz, Frederick H. Veach, Regional Vice Presidents



John D. Foster, Vice President, Personnel



Frederic E. Giersch, Vice President, New York Office



Charles J. Barnhill, Secretary & General Counsel



Ashley D. DeShazor, Vice President, Credit



Thomas O. Stratton, Treasurer



For 94 years, Montgomery Ward has served the families of America by its well-known policy of "Satisfaction Guaranteed or Your Money Back."

Today's customers receive the same guarantee for a growing variety of services such as appliance and automobile maintenance and repair, fashion and home decorating consultations, catalog and credit services.

Whatever way customers want to buy, that's the way Montgomery Ward is going to sell—in the city, suburbs or on the farm; by day or by night; by mail, by telephone, in the home or in the store; by cash or on credit.

In 1966, Montgomery Ward is offering greater shopping values and customer services than ever before.

